

Shell Offshore Inc.

An affiliate of Shell Oil Company



Exploration and Production
Shelf Division
Regulatory Affairs Department

PO Box 61933
New Orleans LA 70161-1933

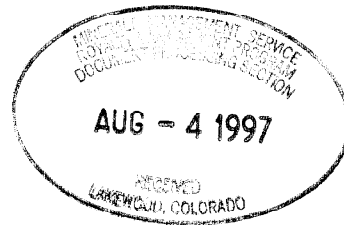
One Shell Square
701 Poydras Street
New Orleans, LA 70139

Direct Number: (504) 588-6982
Direct FAX: (504) 588-4567

August 1, 1997

VIA AIRBORNE EXPRESS

Mr. David S. Guzy
Chief, Rules and Publications Staff
Royalty Management Program
Minerals Management Service
Building 85 - Denver Federal Center
Denver, CO 80225



Dear Mr. Guzy:

RE: NOTICE OF PROPOSED RULEMAKING ESTABLISHING
OIL VALUE FOR ROYALTY DUE ON FEDERAL LEASES
AND ON SALE OF FEDERAL OIL - 62 FR 36030

These comments are submitted on behalf of Shell Offshore Inc. and its affiliates, Shell Deepwater Production Inc., Shell Western E&P Inc. and Shell Frontier Oil & Gas Inc., hereinafter collectively referred to as "Shell".

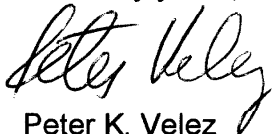
Shell filed extensive comments on the January 24, 1997 (62 FR 3741) rulemaking. The July 3, 1997 amendment does not address the very significant, substantive issues which were noted by Shell in its comments which are of essential importance to the rulemaking itself. The amendment by its own admission was intended to address only concerns raised by small producers. As a result, the changes proposed are a very limited attempt to improve the regulation.

MMS efforts should not be directed to issues on the periphery of oil valuation but should be devoted to consideration of the resolution of major issues raised by Shell and other commenters. Among these issues are the following: why royalty valuation at the lease itself is not the correct starting point, addressing the noted deficiencies in the use of NYMEX and ANS values as the relevant starting point for lease valuation; explaining why MMS's royalty share should not pay the commercial rate paid by third parties to transport through the same proprietary or affiliated pipeline; how appropriate adjustments will be made for quality back to the lease; how

location differentials will be made, and an appropriate adjustment to correct for the overstated value contained in onshore and distant NYMEX and ANS index values; how MMS will efficiently and effectively administer a new version of the "old FPC area rates" through the setting of transportation costs for pipelines located in various geographic areas; explaining why MMS has rejected FERC tariffs; correcting the cited deficiencies in the new form MMS 4415, and explaining clearly the statutory bases for the MMS's expansion of the marketing obligation of the lessee.

These and other issues which have been raised by the various commenters are far more serious and far reaching and should be the real focus of effort and energy on the part of the MMS. While it is admirable that the MMS has attempted to address concerns of small producers, this amendment in no way has addressed the serious concerns raised by Shell in its prior comments. Nor should the amendment in any way be viewed as an adequate or meaningful response to the original notice or a substitute for the publication of a wholly new revised approach which takes into consideration positions of all the parties who commented on the January 24, 1997 proposal.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Peter K. Velez", written in a cursive style.

Peter K. Velez
Regulatory Affairs Manager